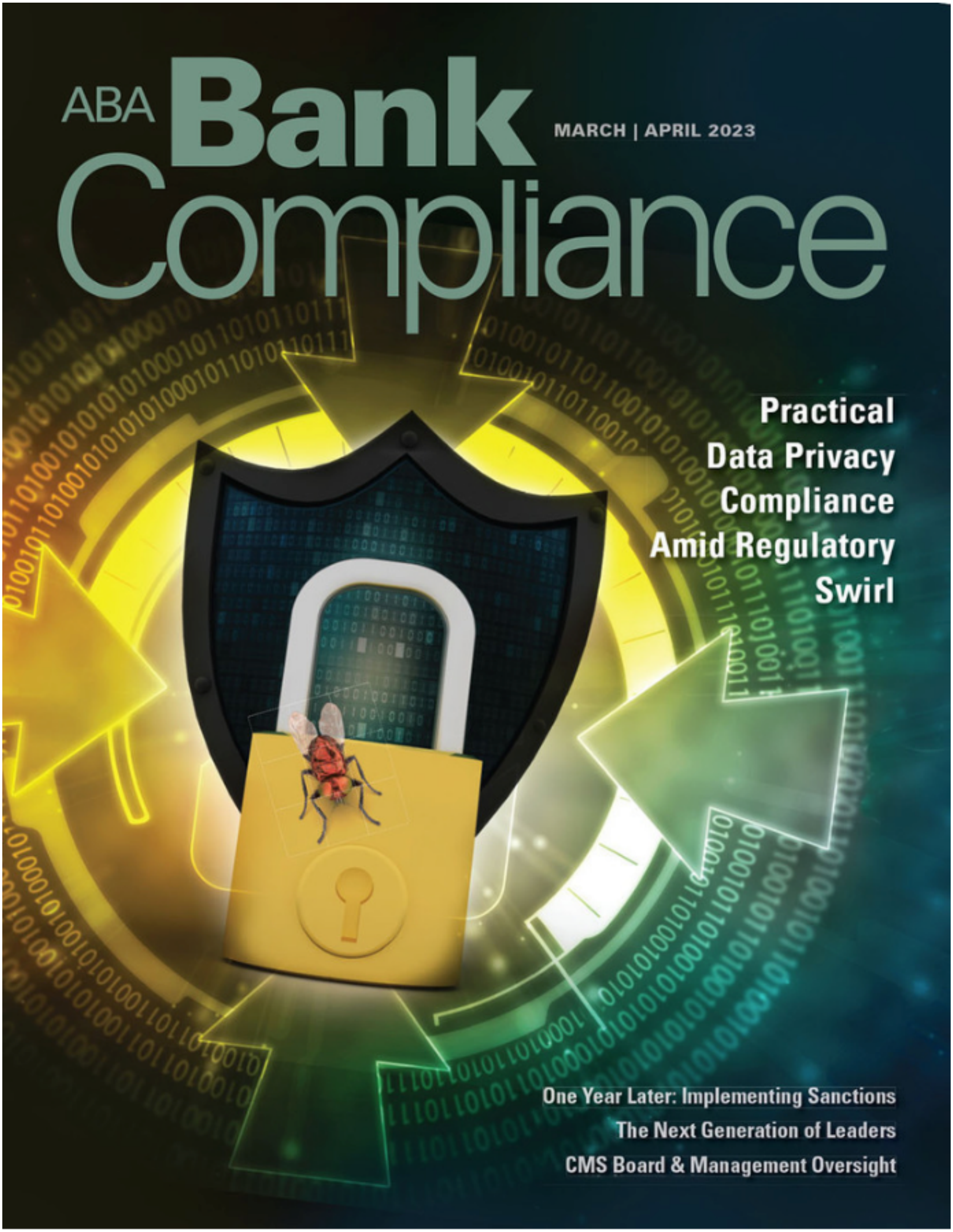
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Better Together

Building CRA Partnerships with Mission-Driven Financial Institutions

AT THE HEART OF CRA, banks are encouraged to support low- and moderate-income individuals, small business, and small farms in their communities. Recently, banks have renewed their efforts to provide responsive products and services to historically underserved individuals and areas. Yet, many banks have not harnessed the power of building partnerships with mission-driven financial institutions as part of their CRA strategy.

What Is A Mission-Driven Financial Institution?

In its "Making Ends Meet in 2022" study, the Consumer Financial Protection Bureau found that as of December 2022, financial health in the United States was declining, with more families experiencing income volatility, having difficulty paying bills, and using high-cost credit products. (See files.consumerfinance.gov/f/documents/cfpb_making-ends-meet-in-2022_report_2022-12.pdf.) The study found that Black, Hispanic, and low-income consumers are more likely to have difficulty in paying bills, with 51% of Black and Hispanic respondents being unable to cover their expenses for longer than a month compared to 37% of all households. The survey also found that Black and Hispanic consumers were more likely to be turned down for credit or to avoid applying for fear of being turned down.

Mission-Driven Financial Institutions encompass several types of organizations that primarily serve communities that may be unbanked, underbanked or economically challenged or minorities. These institutions work to revitalize those communities, often in low-income, distressed, or underserved areas, by providing specialized financial products, loans, and services to meet identified community needs. These unique financial institutions include:

- **Minority-Owned Depository Institutions**: Federally-insured depository institutions where at least 51% of the voting stock is owned by a minority population or the majority of the Board of Directors are a minority and the community the institution serves if predominantly minority.

- **Women-Owned Depository Institutions:** Federally-insured depository institutions where at least 51% of the voting stock is owned by women or the majority of the Board of Directors are women and a significant percentage of senior management positions of which are held by women.

- **Community Development Financial Institutions:** U.S. Treasury-certified organizations, including banks, credit unions, loan funds, microloan funds, or venture capital firms, that provide tailored resources and innovative programs to support economically disadvantaged communities.

- **Low-Income Credit Unions:** Credit unions with a membership of at least 50.01% of individuals who meet low-income thresholds or that primarily serve low-income areas and meet the rules and requirements of the National Credit Union Administration (NCUA) to be designated as a low-income credit income.

Currently there are over 140 minority-owned depository institutions nationally. There are also 15 women-owned depository institutions, two of which— First Women's Bank in Chicago and Agility Bank in Houston—have opened in the last year. As of December 2022, the CDFI Fund has certified 1,384 organizations, including 320 banks or bank holding companies and 479 credit unions. According to the NCUA, 1,874 credit unions in the United States are designated as low-income.

Alignment with CRA

For many years, banks have received CRA consideration for activities undertaken in support of mission-driven financial institutions. The CRA statute, its implementing regulations and the interagency Questions & Answers on CRA (Q&As) specify that activities undertaken in cooperation with minority, or women-owned financial institutions and low-income credit unions, are considered responsive to community needs.

Bank collaboration with certain mission-driven financial institutions is unlike most areas of CRA, where a bank's activities should respond to community needs within the bank's delineated CRA Assessment Areas or a broader statewide or regional area that includes the bank's CRA Assessment Areas. As detailed in the Interagency Questions & Answers on CRA most recently updated in 2016, the banking agencies apply a broader geographic approach specifically for bank activities with minority- or women-owned depository institution and low-income credit unions. Banks can receive favorable CRA consideration for support of these targeted financial institutions even if the institution is not located in, or the activities do not bene-

fit, the bank's CRA Assessment Areas or broader statewide or regional area. The activities, however, must still be responsive to help meet the credit need of the local communities where the minority- or women-owned depository institution or low-income credit union serves.

The guidance provided in this specific Q&A opens up the possibility for banks to pursue partnerships with minority- or women-owned depository institutions or low-income credit unions in a much wider reach than other CRA activities, outside of the standard geographic framework.

Building CRA Partnerships with Mission-Driven Financial Institutions

Knowing that there are hundreds of mission-driven financial institutions throughout the country is only the first step to building strong partnerships with these unique organizations as part of a bank's CRA strategy. How do banks then provide collaborate with these organizations to further their mission and provide greater community impact?

One of the most impactful ways to collaborate with a mission-driven financial institution is through direct investment or participation in the institution's activities. Banks can do this in a variety of ways including:

- Placing funds on deposit at the mission-driven financial institution;
- Making a direct capital investment in the mission-driven financial institution;
- Purchasing loan participations;
- Providing bank staff volunteers for the mission-driven financial institution who can share financial expertise or technical assistance in overseeing lending policies, operations, or other activities;
- Offering financial investments, donations, or grants to enable the mission-driven financial institution to offer financial literacy education to the communities it serves; and
- Sharing free or discounted data processing systems or office facilities to aid in serving customers.

Direct financial investment in a mission-driven financial institution will be evaluated under the bank's Investment Test (or Community Development Test for Intermediate Small Banks) during the bank's CRA examination. Monetary support could include investments, grants, deposits, or shares placed with a mission-driven financial institution, including those that primarily lend to or facilitate lending to low- and moderate-income areas or to individuals with low-or moderate-income.

To the extent that banks make direct loans to or participate in lending with mission-driven financial institutions, banks may also receive CRA consideration for those activities as qualified Community Development Loans during the bank's next examination.

Such activities help maintain the financial capacity and sustainability of mission-driven financial institutions. Through direct financial investment or loan participations banks allow mission-driven financial institutions to have a wider impact on the communities they serve by freeing up capital for additional lending to targeted clients and businesses.

Banks can also receive positive consideration under the Service Test (or Community Development Test) by providing volunteers to offer management and other guidance directly to the mission-driven financial institution. Activities such as serving on the financial institution's Board of Directors, overseeing lending activities, or providing other technical expertise, such as marketing, legal, or IT, to the organization or its staff may receive CRA consideration.

Another responsive step in a strong partnership could be the donating or selling a decommissioned bank branch to a mission-driven financial institution, especially if the branch is located in a low- or moderate-income census tract, majority-minority census tract, or designated distressed or underserved geography. A bank could also provide rent-free or reduced-rent facilities for use by the mission-driven financial institution and track that related rent waiver for consideration as a CRA qualified investment.

Specific to U.S. Treasury-certified Community Development Financial Institutions (CDFIs), the Interagency Q&As on CRA clarify that lending activities to small businesses or small farms through CDFIs as a financial intermediary would be considered economic development activities for consideration under the bank's CRA evaluation. The Q&As directly state that "the agencies will presume that any loan or service to or investment in a…Community Development Financial Institution that finances small businesses or small farms, promotes economic development."

Renewed Agency Commitment to Mission-Driven Financial Institutions

Since 2021, the banking agencies have demonstrated a renewed focus on minority-depository institutions and other mission-driven financial institutions.

In September 2021, the Federal Deposit Insurance Corporation (FDIC) announced its intent to develop a Mission-Driven Bank Fund, a private capital investment vehicle to support insured Minority Depository Institutions and CDFIs. This new fund was led by Microsoft and the Truist Financial Corporation with Warner Brothers Discovery committed as the founding

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investor in the fund. The initial commitment to the fund from these entities is $120 million, with additional investments expected. The goal of the fund is "to improve mission-driven bank sustainability and build capacity and scale to enable these institutions to have a greater impact in the communities they serve." More information can be found about this new opportunity at www.missiondrivebankfund.org.

In November 2021, the FDIC also created a new office directly focused on engagement with Minority Depository Institutions, CDFIs, and other mission-driven financial institutions. In February 2022, the FDIC launched a new joint series of podcasts focused on financial inclusion and minority banks. Most recently, in May 2022, the FDIC updated its policy statement on Minority Depository Institutions to include a new process for an insured institution to request designation as a Minority Depository Institution. (See www.fdic.gov/news/financial-institution-letters/2022/fil22024.html.)

The Office of the Comptroller of the Currency (OCC) has also renewed its commitment to Minority Depository Institutions. In the agency's "2021 Annual Report on the Preservation and Promotion of Minority-Owned National Banks and Federal Savings Associations," the OCC noted that it develops an annual supervisory strategy for each of the 53 minority-owned financial institutions it oversees (www.occ.treas.gov/publications-and-resources/publications/omwi-publications/files/pub-2021-firrea-annual-report.pdf). In December 2020, the agency released its Project REACh Minority Depository Institution Pledge, which encourages "large and midsize banks to consider pledging to develop meaningful partnerships with MDIs to help them remain a vibrant part of the economic landscape and better promote fair, equal, and full access to financial products and services in their communities." (See www.occ.treas.gov/news-issuances/news-releases/2020/nr-occ-2020-166.html.) As of the OCC's 2021 Annual Report, 25 banks adopted this pledge and are pursuing collaboration partnerships.

In April 2022, the OCC also published "Partners in Recovery: Community Reinvestment and Resilience" to highlight how banks can collaborate with mission-driven financial institutions to rebuild communities recovering from the COVID-19 pandemic and natural disasters (www.occ.gov/news-issuances/news-releases/2022/nr-occ-2022-36.html).

The Federal Reserve Board has long-been committed to Minority Depository Institutions. Its Partnership for Progress program, established in 2008, works to preserve and promote the institutions and an inclusive financial system. Details at the initiative can be found at www.fedpartnership.gov.

CRA Modernization & Mission-Driven Financial Institutions

Support for mission-driven financial institutions is also discussed within the proposed CRA Modernization rule issued by the banking agencies in May 2022. The agencies have proposed several ways to strengthen CRA provisions for minority- and women-owned depository institutions, low-income credit unions, and U.S. Treasury-certified CDFIs.

Generally, as proposed, investments, loan participations, and other ventures undertaken by any bank in cooperation with a minority- or women-owned depository institution would be considered responsive during CRA examinations. The agencies also sought feedback on whether activities undertaken by a minority- or women-owned depository institution to promote its own sustainability and profitability should qualify for CRA consideration.

Regarding CDFIs, the agencies proposed that all activities with a U.S. Treasury-certified CDFI would be an eligible CRA activity. This specifically includes lending, investment, and service activities a bank undertakes in connection with a CDFI, as the agencies presume such activities qualify for CRA credit given as CDFIs must meet specific criteria to prove they have a mission of promoting community development and providing financial products and services to low- and moderate-income individuals and communities. For example, credit products such as home mortgage loans and small business loans that banks purchase from CDFIs would be considered responsive as they "provide necessary liquidity to these lenders and extend their capacity to originate loans to low- and moderate-income individuals, low- and moderate-income areas, and to small businesses and farms."

Under the proposed CRA examination framework, a specific impact review factor would also be added for activities that are conducted in partnership with minority- or women-owned depository institutions, low-income credit unions, and U.S. Treasury-certified CDFIs. The agencies are considering if the impact review factor should apply to all activities or specific activities undertaken with these organizations, such as equity investments, long-term debt financing, donations, or services, but excluding short-term deposits, for example.

Getting Started

While we await the publication of the final CRA modernization rule in 2023, it is clear that mission-driven financial institutions remain a focus of CRA, and banks should not hesitate to seek out these key partners now. The impact of these organization in serving communities is unquestionable. While banks often look locally for investment opportunities, policymakers provide greater flexibility in partnering with mission-driven financial institutions located anywhere in the country in order to facilitate the provision of financial services underserved areas. Building strong partnerships with mission-driven financial institutions will not only directly benefit a bank's CRA strategy, but will drive greater social impact and economic inclusion. ■

ABOUT THE AUTHOR

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